



DATE: June 8, 2015
TO: Mayor and City Council
FROM: Diann Kirby, Community Services Director
RE: Hyland Greens Golf and Learning Center Options

Issue

A number of factors including a changing golf industry and unfavorable weather have diminished business and created an ongoing operating loss at Hyland Greens Golf and Learning Center. Below is an analysis of the current conditions at Hyland Greens. This memo also delves more deeply into the potential alternatives for the course's future as a follow-up to the City Council study meeting on October 21, 2014.

Purpose of the Memo

1. Provide the City Council with background on Hyland Greens.
2. Present potential options for Hyland Greens.
3. Request City Council direction on how to proceed.

Objectives for Hyland Greens

Below are the objectives for Hyland Greens as noted in its 2015 business plan:

1. To operate Hyland Greens as a fiscally sustainable enterprise.
2. To assure the best playing experience for all customers.
3. To maintain an aesthetically pleasing golf course.
4. To keep fees competitive with similar courses in the metro area.
5. To have residents value the golf course as a community asset.

Background

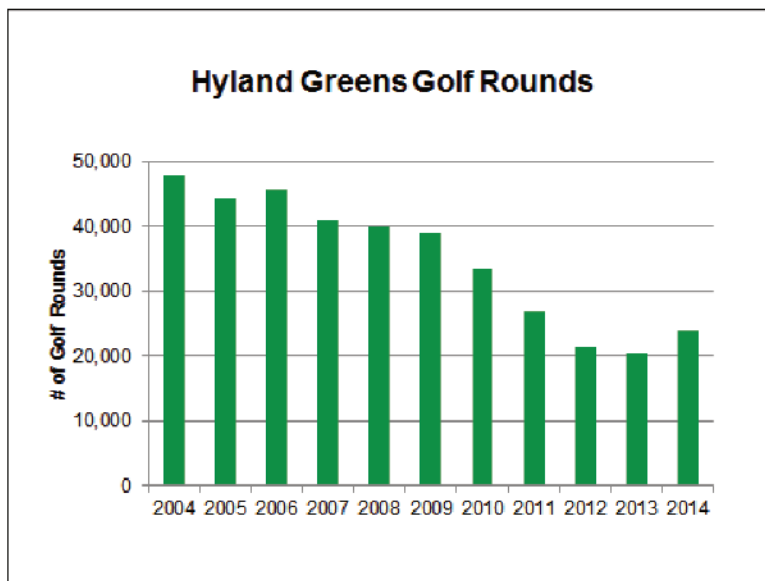
Hyland Greens Golf and Learning Center was originally constructed by a private developer in the 1960s. In 1962, Les Boche purchased more than 60 acres of farmland near what is now the corner of 102nd Street and Normandale Boulevard. A farmhouse and barn were demolished to make room for construction of an 18-hole golf course. After operating the course for 12 years, Boche sold it to the City in 1974.

Originally comprised of two beginner-level, 9-hole courses, Hyland Greens provided novice golfers an opportunity to sharpen their skills and gave experienced golfers a place to engage in practice rounds. The most rounds of golf ever sold in a single year at Hyland Greens totaled 59,961 in 2000. By 2011, the number of rounds had dropped to 26,778, the last year that both the inside and outside nine-hole courses were operational.

The "Inside 9" or short course was the less challenging of the two courses with small, easily reached greens and hazard-less fairways. It experienced a significant decrease in use during the 2000s. To bolster revenues, the Inside 9 was shut down in 2012 and converted into an expanded driving range with natural

grass. Meanwhile, a new set of tees was added to the longer “Outside 9” course, providing a short course option within the remaining nine holes. Expanding the driving range has proven moderately successful in shoring up revenues for the driving range.

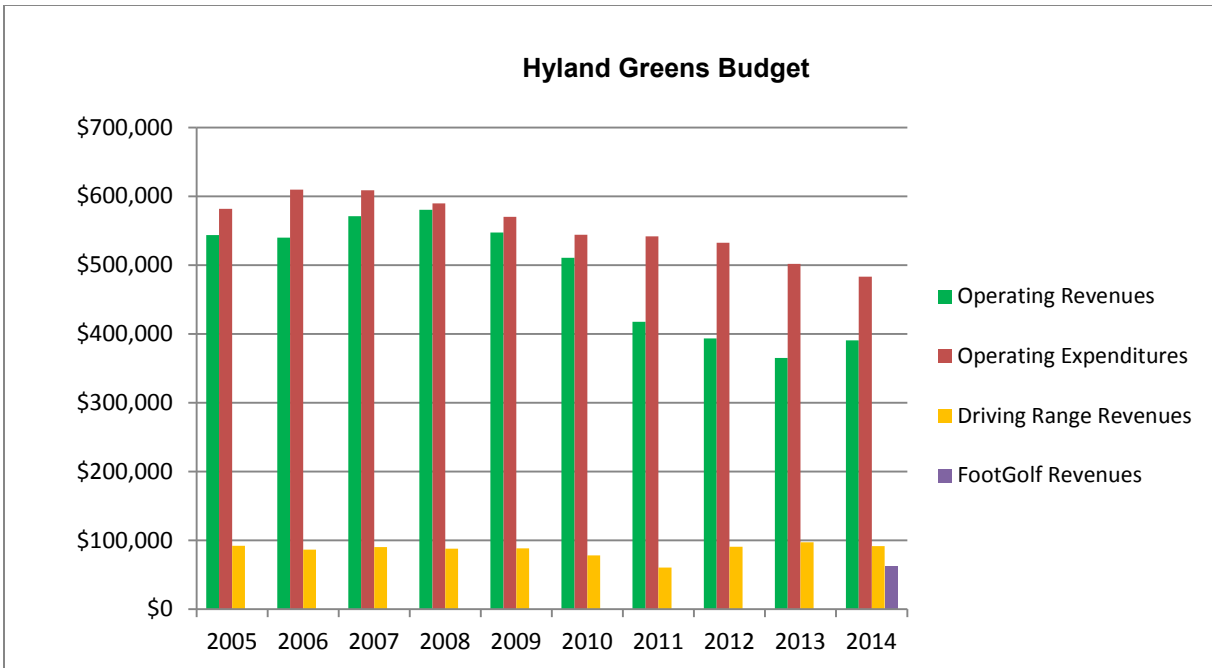
In another effort to boost revenues, Hyland Greens introduced FootGolf in 2014. It was only the second golf course in the metro area to offer this hybrid of golf and soccer when the game debuted on May 24, 2014. The turn-out for foot golf exceeded expectations. There were 7,749 rounds of FootGolf played at Hyland Greens last year, tallying up revenues of \$62,684. FootGolf accounted for 32% of golf rounds at Hyland Greens in 2014. It also turned around a steady decline of rounds played at Hyland Greens since 2006 (see attached for more detailed look at golf rounds since 2009).



Despite the best efforts of the City – including expanding the driving range in 2012 and adding FootGolf in 2014 – the course has not been generating sufficient revenues to cover its operating costs. At the end of the 2014 golf season, Hyland Greens had a \$92,251 gap between operating expenditures and revenues.

In recent years, Hyland Greens has been hit particularly hard by inclement weather. After a prolonged winter in 2014, Bloomington’s golf courses didn’t open until April 26, the latest opening in at least 24 years and approximately 3 weeks behind schedule. Weather continued to wreak havoc throughout the year. June 2014 was the wettest June on record in Minnesota, and June 19 was the sixth wettest calendar day on record in the Twin Cities. The rainy weather left standing water at Hyland Greens that closed down the course for 4-5 days. This year, Hyland Greens opened for the season on March 13, the earliest season opening in memory, but closed for 10 days later in the month due to more seasonable weather. The early opening boosted the golf course’s revenues. As of April 30, 2015, Hyland Greens had posted \$51,366 in revenues compared to \$19,593 for the same period last year.

The graph on page 3 shows the operating revenues vs. operating expenditures for Hyland Greens since 2005. While driving range and FootGolf revenues are depicted separately, these revenues are also included in the operating revenues.



Hyland Greens has also been affected by golf industry trends in general. Municipal golf courses nationwide struggle to cash flow, in part because of an influx of privately owned public courses in the 1990s. Here in Minnesota, 25% of all golf courses in the state have been built since 1990; 41 new courses opened in Minnesota from 2000-2006. Just one has opened since then in Albert Lea. Yet according to a recent MinnPost article, Minnesota remains one of the strongest states in the nation for golf, bringing in \$1.2 billion annually.

A total of 157 golf courses were closed nationwide in 2013, the eighth consecutive year of net golf club closings; 151 of those were public courses. Fifteen Minnesota courses have closed since the last one opened in the state six years ago. One of the most recent closings was Fred Richards Executive Course in Edina, which shut down in October 2014 after more than 50 years of play. Another closing was announced two weeks ago – 3M’s Tartan Park in Lake Elmo, which will cease operations on December 18, 2015.

In order to stop the financial bleeding, golf course owners usually do one of three things: contract with a private management company, put the course up for sale, or sell the land for private development.

Potential options for Hyland Greens

It has become apparent that without a significant change in Hyland Greens’ business model, a decision needs to be made about its ongoing viability. At the study meeting on October 21, 2014, staff presented the City Council with five potential alternatives for the golf course’s future. Staff have been researching those options since the October study meeting. Presented below is an examination of the additional information and research generated each of the five options:

1. Continue Hyland Greens as a City-operated course:

Under this alternative, the City would continue to operate Hyland Greens as it has in the past, with the Golf Course Fund covering the operational costs for both Dwan and Hyland Greens. This is similar to how the City has subsidized Motor Vehicle with a transfer from the General Fund for several years. This option assumes that Dwan Golf Club would pick up any operating

deficits from Hyland Greens.

Dwan and Hyland Greens are both located in the Enterprise Fund, which is supported by user fees. Dwan has done well over the years – so well that it was been able to fund \$2,425,450 in capital improvement at the Bloomington Ice Garden (BIG) since 1997. BIG's budget is now in better shape since its bonds for the construction of Rink #3 were paid off in 2013. BIG's budget now needs to grow its reserves to accumulate funds for future capital improvements and routine capital maintenance.

In 2012, \$675,000 in strategic priorities dollars were transferred to Dwan to help fund the Dwan maintenance building construction project. In 2013, \$515,000 in strategic priorities was transferred out (a portion of this amount went to the Facilities Maintenance fund to repay consultant costs charged to that fund and \$396,538 went directly into Dwan's accounts) equaling \$1,190,000 for the building project.

In 2014, the City Council approved \$800,000 of capital infusion through BIG back to the Dwan budget. That leaves a remaining \$535,450 in funds owed to Dwan by BIG or from other City sources.

The attached worksheet provides a summary of both Hyland Greens' and Dwan's budgets since 2013 as well as projections of tax levy needed for the future. Tax support of \$450,000 is forecast for the Golf Fund in 2016; from 2017-2021, annual tax support of \$300,000 is projected each year for a total of \$1.65 million over the next six years. Note that even with this capital infusion, Hyland Greens' working capital balance would remain in the red for the foreseeable future.

Should Hyland Greens cease to exist, Dwan would have to cover the internal service costs that would need to be reallocated to other City funds. Also, two full-time staff currently fully supported by Hyland Greens' budget may need to be laid off. The salaries and benefits for three other full-time employees with a portion of their time coded to Hyland Greens' budget would have to be shifted over to Dwan's budget. This cost is estimated to be approximately \$70,000.

2. Convert Hyland Greens into a park:

This option would eliminate the golf operations at Hyland Greens and turn the course into a park. This option would preserve the green space and tranquil setting that the community has experienced there for the past fifty years. Possibilities could range from creating a passive park with mowed turf, trails, picnic tables and park benches to a more active venue containing soccer, softball and other ball fields. Another possibility would be to continue to operate the driving range but close down the nine-hole golf course and turn it into parkland.

Converting former golf courses into parks is not a novel concept. Examples can be found in California, South Carolina, Indiana, New Jersey, Nevada, Florida and Washington. In New Jersey, an archery range was installed in an old practice putting green. In Richmond, Indiana, a nine-hole course was downsized into a three-hole practice facility, with the rest of the space devoted to general recreation. In North Las Vegas, Nevada, a defunct golf course became a regional park with a dog park, skate park, ballfields, volleyball courts and community garden. A fading golf course in Royal Palm Beach, Florida, now features playgrounds, a banquet garden, volleyball courts, picnic pavilions and a lawn for concerts in addition to a driving range and putting course.

More golf-to-park conversions are expected. In some cases, park conversions resulted as alternatives to redevelopment. In Deerfield Beach, Florida, the owner of an old golf course proposed a constructing housing on the site. Nearby residents who were concerned about increased noise and traffic countered with their own proposal – convert the property into a memorial park/cemetery.

A closed golf course in Lee County, Florida, has become a haven for outdoor enthusiasts. The county purchased an 11-acre section of a former 18-hole course in 2008 and turned it into an “eco-park.” Much of the golf course’s topography such as berms and sand traps as well as existing trees was preserved. A half-mile paved multi-use trail was constructed around a three-acre prairie. Picnic pavilions, an outdoor fitness area, an observation deck and native plants were also added. The total cost for the park conversion, completed in 2013, was \$1.18 million. The maintenance cost for the 11-acre park in 2015 is \$30,880. This includes mowing, weeding and fertilizing. It does not include routine maintenance of buildings and garbage and recycling.

Locally, Edina’s Fred Richards Golf Course is being re-envisioned as park and recreation land. A repurposing study calls for developing approximately 35% of the course’s 42 acres into active recreational uses and dedicating 65% to passive forms of recreation such as trails, open space, community gardens, ponds and buffers. Closing the golf course gave the City of Edina with an opportunity to provide a better trail alignment for Three Rivers Park District’s regional trail instead of routing it on the street around the golf course. The City of Edina will start an RFP process later this year to hire a landscape architect to complete the final design of the site.

The base cost for repurposing Fred Richards from a golf course to a community park is estimated at between \$3 million to \$3.6 million. Improvements such as open parkland area enhancements (e.g., promenades, boardwalks, public art, etc.) and field game areas could raise the total price tag from \$6.6 million to \$7.9 million. A portion of the costs may be funded in partnerships with others, such as Three Rivers Park District for the regional trail and related development. The City of Edina has not yet estimated the annual maintenance costs for the new park since it is still in the visioning stage. The cost for maintenance could vary widely depending upon the actual amenities included in the final plan, amount of ponding, etc.

Any major upgrades for a park at Hyland Greens would require significant capital investment. Converting Hyland Greens into a park would also require budgeting money in the General Fund for its maintenance. The base cost for simple maintenance of the golf course’s approximately 56 acres is estimated at \$61,000. This estimate assumes minimal mowing and turf maintenance on a weekly basis from May through October. Converting 75% of the turf to native plantings would reduce the area requiring mowing and weed control to around 18 acres at a cost of approximately \$15,000. The cost of native plantings is estimated to be \$168,000 for 42 acres. None of these estimates includes the cost of maintaining buildings, the parking lot or other amenities already on the site, not to mention potential improvements and enhancements.

3. Sell the Hyland Greens property for residential development:

Another alternative is to close the course and sell the Hyland Greens property to a developer for residential development. Other former golf courses in the metro area are being transformed into housing developments. The Minnetonka Country Club, which closed at the end of 2014 after nearly 100 years of business, is proposed to become the site of a 121-home subdivision. Lakeview Golf Course in Orono shut down in 2013; 46 homes are being built on the old course. Plymouth’s Elm Creek Golf Course is expected to become home to 156 houses. In Minnetrista, 61 homes are under construction at the former Red Oak Golf Course. And in Blaine, the nine-hole Katehaven Golf Course is being reconfigured into 70 townhomes around three ponds and a creek.

The redevelopment option would add the Hyland Greens property to the City's tax rolls and could generate income for other City initiatives. A sale would result in a one-time payment to the City for land and a relatively small increase in the City's tax base. Existing internal service costs would need to be reallocated to other City funds.

The Planning Division has prepared a development scenario (see attached memo) for discussion purposes to help the City Council evaluate the feasibility of selling 10100 Normandale Boulevard for residential development. Because single-family residential uses abut the parcel to the north, west, and south, and since single family lots in this part of Bloomington have sold well, approximately half of the parcel is proposed for single-family detached development (yellow on attached concept diagram). Multiple-family and institutional land uses are adjacent to the north and east sides of the parcel. Approximately 19 acres could be used for senior housing (brown on concept diagram). Senior housing has sold well in Bloomington. This location, close to Normandale Village shopping and transit service, is appropriate for senior housing or multi-family housing. The remaining 10 acres at the southeast corner is suitable for townhome development (orange on the concept diagram), which mirrors the existing land use south of 102nd Street.

Assessing staff have evaluated the parcel's market value for this development scenario as follows:

Use	Units	Average Density	Unit Price	Total Value
Single family dwellings	68	2.0 units per acre	\$65,000 to \$75,000 per lot	\$4,425,000 to \$5,100,000
Townhomes	35	3.5 units per acre	\$35,000 to \$40,000 per unit	\$1,225,000 to \$1,400,000
Senior or multi-family housing	304	20.0 units per acre	\$14,000 to \$18,000 per unit	\$4,250,000 to \$5,500,000
TOTAL	407			\$9,900,000 to \$12,000,000

Source: Planning and Assessing Divisions

Losing a recreational and scenic asset of more than 60 acres of park-like green space may generate substantial community opposition. A hybrid approach might be to dedicate 8 to 10 acres of the course to a public park surrounded by residential development. However, this option would diminish the revenue potential from the sale of the land. At the same time, it may create the opportunity for the City to actively partner with a development on an innovative public-private design partnership.

An initial public discussion and input process is recommended before the Council makes a final decision to pursue any residential redevelopment option.

4. **Contract with a private vendor to manage Hyland Greens:**

Some municipalities have privatized their golf course management through vendor agreements and leases in an attempt to reduce financial risk and increase revenue. Under these arrangements, a golf course is professionally managed by either a golf company or an individual.

Vendors typically enter into a contract that requires that they share revenue and/or make

investments in the golf course. Cities may also pay a fixed monthly fee, often with an incentive-based premium for performance. For instance, the City of Augusta, Georgia, entered into an agreement with a private management company that requires the city to pay a monthly management fee of \$3,000 until the course becomes profitable. The fee then rises to \$5,000, with a portion of the profits going to the city. Vendors have the opportunity to make substantial income under such arrangements. While management companies can be skilled in turning around struggling courses, much of the profits generated by these for-profit companies ultimately leave the municipality. Also, there is no guarantee of the income stream. The City would likely still be required to purchase goods and services and budget for capital improvements.

There are a number of third-party golf course management companies that specialize in operating golf courses. City staff contacted a variety of management companies to inquire whether they would have an interest in entering into an agreement to manage Hyland Greens. Four companies responded to the City's initial inquiry. Staff sent the companies a copy of Hyland Greens' financials since 2004. The world's largest third party manager of golf operations responded that there was not enough scope, cost savings, revenue generation and potential efficiencies for them to take on Hyland Greens. Another golf management company replied that after analyzing the financials and number of rounds, they didn't think that they could partner with the City on a management agreement. They noted that the level of revenue generation was at such a point where a partnership would likely not make financial sense for either party.

It is unlikely that the City would be able to find a vendor interested in managing Hyland Greens given its limited ability to generate profits. Most private management companies are not attracted to managing a 9-hole course with no banquet facilities. It is possible that a private management company might be interested in managing both Hyland Greens and Dwan. However, Dwan also does not have a banquet facility that could help subsidize the operation for 6 – 7 months of the year.

5. Enter into a partnership on a year-round golf facility:

In March 2014, the Minnesota Golf Academy approached the City about a potential public-private partnership at Hyland Greens Golf and Learning Center. The crux of their business model was converting Hyland Greens into a year-round golf facility by constructing a 50,000-square foot building on the northeastern corner of the golf course. The building would have featured a driving range and short range bays as well as a large putting green. MGA had proposed that the building be financed by taxable general obligation tax abatement bonds. At its study meeting on October 21, 2014, the City Council directed staff to investigate the MGA concept further while exploring other potential options for the golf course.

MGA had requested that the City enter into a private management agreement of Hyland Greens during the 2015 golf season while the feasibility of constructing the indoor facility was being explored. The City contracted with Springsted in January 2015 to provide the financial due diligence and analyze the proposed financing plan necessary for MGA to manage and operate Hyland Greens in 2015. As of February 3, MGA had not provided the due diligence documents to Springsted for a timely review. As a result, the City suspended activities regarding a one-year management contract with MGA for the 2015 golf season. Staff notified MGA that if they still wanted to be part of the options for Hyland Greens presented at the June study meeting, they should provide all organizational, financial, and future obligation documentation with regards to previous ownership, existing ownership and new ownership of MGA-related activities to the City by April 1, 2015. Three days after the City's request, on February 6, 2015,

MGA announced on its website that it was closing its Eden Prairie facility. MGA has had no communication with the City since February 3.

While the proposal for a year-round golf facility with MGA is off the table, it still may be a potential option if a private entity is interested in partnering with the City on such an arrangement.

Next steps

Staff are requesting that the City Council provide direction on which alternative or alternatives for Hyland Greens that they would like to pursue further. Option #1 would keep Hyland Greens in its current state as a City owned and operated facility, with property taxes/strategic priorities funds subsidizing the budget. Option #2 would convert the golf course into a park, preserving the green space but requiring property tax dollars for maintenance and capital improvements. Option #3 would sell Hyland Greens to a private developer. While this alternative would put the land onto the property tax rolls, it would also provide a one-time cash infusion and eliminate the green space. Under Option #4, the City would attempt to find a private management company to manage the course. This would be difficult because of the limited ability to generate profits and savings. Option #5, entering into a public-private partnership to build a year-round facility, is off the table for now unless another partner can be found.

Staff requests that Council provide direction on which option or options they prefer to pursue for Hyland Greens. Also, Council is asked to consider whether they want to undertake a community engagement component to help define the future direction for the golf course. Such engagement might include open houses, public meetings and stakeholder interviews. This process may require the need to bring in outside consulting services if sufficient staff resources are not available in-house.

Staff will be looking for Council's direction on next steps at the study meeting on June 8.

Attachments:

- A. Aerial Map of Hyland Greens
- B. Hyland Greens Monthly Golf Rounds, 2009 – 2015
- C. Golf Financial Performance, 2013 – 2020
- D. Residential Development Memo
- E. 10100 Normandale Blvd Development Scenario